MICHIGAN
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OF COUNTIES

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February 20, 2007

Timeline of County Revenue Sharing

As counties are constitutionally a creation of the state, they carry out many state mandates. Counties depend upon the state to help fund these critical state mandated services. As such, county revenue sharing is a very important component of funding these services. However, to understand the situation county revenue sharing is in today, it is helpful to have an understanding of the history of county revenue sharing.

- **1930s-** State begins sharing liquor tax revenue w/ Cities, Villages and Townships (CVTs).

- **1939-** State institute intangibles tax; shares revenue with CVTs, to offset removal of intangibles property from local tax rolls. Begins trend of state removing local taxing authority and replacing it with state shared revenue.

- **1946-** The voters of the state amended the constitution to earmark ½ cent of the state sales tax to distribute to CVTs on a per capita basis.

- **1963-** The newly created state constitution dedicates 15% of sales tax revenue to CVTs, reaffirming the action of the voters in 1946 (in 1994 under Proposal A the state added 2 cents to the sales tax and dedicated the entire 2 cents to the School Aid Fund).

- **1967-** A new income tax law passed by the state impaired local ability to assess income taxes. The law, however, did share 11.5% of the revenue with CVTs, and *for the first time, counties.* Payments were distributed on a per capita basis.

- **1975-** The state enacts the Single Business Tax (SBT) and exempted business inventory from the personal property tax rolls. A portion of SBT revenues were shared with eligible taxing authorites based on the SEV of those entities' business inventory as of 1975. *In addition, other changes to the revenue sharing formula resulted in the county portion of income tax revenues decreasing while the CVTs' portion increased.*

- **1996-** The Legislature eliminates intangibles, income and SBT allocations to the revenue sharing program and replaced it with 21.3% of the first four cent of sales tax revenue. This percentage is known as statutory revenue sharing. *Of the 21.3%, counties receive 25.06% of the statutory pot, with CVTs receiving 74.94%, in addition to the 15% of the first 4 cents in constitutional revenue sharing.*

- **1998-** Amendments to the revenue sharing distribution formula have minimal impact on counties, as they are still on a per capita distribution basis. However, after these changes, statutory revenue sharing was fully funded for only one year, and local units were forced to not only forgo statutory growth in the fund, but also endure annual additional cuts.

- **2002-** Governor Engler vetoes statutory revenue sharing. The Legislature overrides his veto.

- **2003-** Statutory revenue sharing suffers cuts via executive order as well as through the regular budgeting process.

- **2004-** Counties revenue sharing temporarily suspended. Counties short term replacement funding is made up via accounting mechanism which creates Revenue Sharing Reserve Funds (RSRF). According to P.A. 356 and 357 of 2004, state payments resume when the balances in counties' RSRF are exhausted. Tuscola County is projected to begin resuming revenue sharing payments in 2008.

- **2007-** Governor Granholm includes a line item for Tuscola County in her Fiscal Year 2008 budget, marking the beginning of the return of counties to the state's statutory revenue sharing program.

Timeline prepared by Tom Hickson with information from April 2003 "What is Revenue Sharing?" article prepared by Jerry Griffin in *MichiganCounties*.

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Michigan Association of Counties 2007-2008 Legislative Priorities

1) **Revenue Sharing**-The Governor and Legislature made a promise to fund county revenue sharing as counties exhaust the reserve accounts established when they gave up revenue sharing temporarily to help the state with its current budget problem. This begins with restoration of revenue sharing payments for Tuscola County in FY 2008. *MAC urges the Legislature and Governor to live up to this important promise and begin by providing revenue sharing payments to Tuscola (partial funding for FY 08) in this budget cycle.*

2) **Court Funding**- While the court system in Michigan is one that is state-controlled, it is largely county funded, with little, if any say by counties in court operations. A study of 27 counties in 2006 showed counties that while those counties were required to spend over $183 million in court funding costs, the state funded only 52%, or $95 million (including salaries for judges). The numbers would be a much larger scale for all 83 counties. *MAC urges the Legislature and Governor to begin the process of bringing Michigan's system of Court Funding back to the state.*

3) **Sentencing Guidelines**-As the state's prison system nears capacity, counties' jails face similar problems, with over 2/3 at or over capacity. Some counties have even laid off deputy sheriffs which provide secondary road patrol in favor of using those funds to expand their jails. *Shifting the sentencing guidelines in a manner which results in more offenders heading to county jail or other local sentencing is a major concern for counties, and MAC does not support this policy.*

4) **Economic Development Tools**- Currently counties are at the whim of cities, townships and villages (CTVs) with regards to the implementation of economic development tools. While counties have opt-out provisions for DDAs, TIFAs, and LDFAs if they have been created post-1994, those created before then continue to capture county revenue. Additionally some renaissance zones, enterprise zones and other assorted economic development tools are created by CTVs, with only a public comment period for counties. *MAC believes that counties should be able to offer economic development incentives by exempting county mills without waiting for CTVs, and conversely, counties should be able to opt out of revenue capture or exemption independently of them.*

5) **Business Tax Discussions-** As a constitutional arm of the state, and an interested party, MAC deserves a seat at the table in discussing replacements for business taxes in Michigan. MAC has been working over the past few months evaluating proposals and are willing to discuss issues such as the reduction or elimination of personal property tax under the right circumstances, with replacement revenue. MAC believes that any discussion of both the Single Business Tax replacement as well as personal property taxes should recognize the need for adequate revenue for counties to receive revenue sharing payments.

6) **E-911 funding**-We must achieve parity for providers and stability for counties in regard to 911 fees, and we must achieve it before May 2007 to avoid expensive millage and fee campaigns. *MAC supports the funding formula proposed by the Michigan State Police Emergency Telephone Service Committee (ETSC).*

7) **Proposal A/Headlee Interaction; WPW v. City of Troy-** MAC strongly encourages the Legislature to fix the problems that occur when the pop-up under Proposal A triggers a Headlee Rollback for transfers in property ownership. MAC is of the belief that this sort of interaction was initially intended to impact new builds only. Additionally, MAC strongly encourages the Legislature to treat additions in occupancy the same as losses as it relates to the assessment of commercial property.

8) **Greater Discretion in Setting County Fees-** Most fees for county programs are set in state statute even though the state does nothing to manage the programs. *MAC believes that fees for county programs and services should be set by county boards of commissioners, not to exceed the cost of doing business.*

9) **Protection of Liquor Tax Revenue-**In past budget cycles, there have been attempts to "raid" the convention facilities fund, or liquor tax revenue. Counties rely on this source of revenue for substance abuse programs, among other sources, and would oppose utilizing this method to balance the budget.

10) **Municipal Bonding for Retiree Health Care Costs:** MAC would like to see this bill reintroduced (House Bill 6694 and Senate Bill 1360 of 2006) and signed into law to give counties a tool to assist with the rising cost of health care for retirees.

11) **Federal Child Support Enforcement**-County Friends of the Court and the state Dept. of Human Services face crippling cuts approaching 60 million from the federal government. We must find a solution to the issue, holding the county side harmless if possible.

12) **Four Year Terms for County Commissioners-** This issue has been part of MAC's platform for years and could be a cost savings for taxpayers by reducing election costs. Other county officers serve 4 year terms of office, and this

proposal is consistent with that. Provisions to protect conflict with the two year term of office for State Representatives could be worked out.

13) **Title IV-E audit**-The federal government will audit Title IV-E funds this year, likely resulting in failure by the state Dept. of Human Services. Counties must not be held liable financially for the state's compliance mistakes. Fines and penalties could be in the tens of millions of dollars, and the state has no business passing these penalties along to counties. Additionally, simply removing children from the IV-E roles (which puts them back on the counties' Child Care Fund) to pass the audit without making any effort at fixing the eligibility is not a solution for passing the audit.

14) **Payment in Lieu of Taxes-** As part of a budget solution for the state, payments to local units of government were frozen at 2003 levels for 5 years. While removing the freeze at this time is the most preferable, counties should also have the option of vetoing state purchases in their jurisdiction. If property is coming off the tax rolls and the state cannot adequately pay its property taxes, locals should have the right to refuse these purchases.

15) **Governor's Michigan First Health Plan**-The County family is concerned that county funds may be used to match federal dollars to fund this program, resulting in the loss of federal dollars for county programs.

16) **Ad Valorem Taxation of Manufactured Housing-** Currently manufactured houses in parks only pay $3 per month in lieu of property taxes. MAC encourages the legislature to make a move to place these homes on the ad valorem tax rolls.